

JPMorgan's UK digital bank wins half a million new customers but expects heavy losses

Article

The news: JPMorgan's UK digital bank Chase has attracted half a million customers and \$10 billion in customer deposits since its September launch.

A closer look: When Chase rolled out last year, it became JPMorgan's first retail banking presence outside of the US. The banking heavyweight's investor day slides reported that:

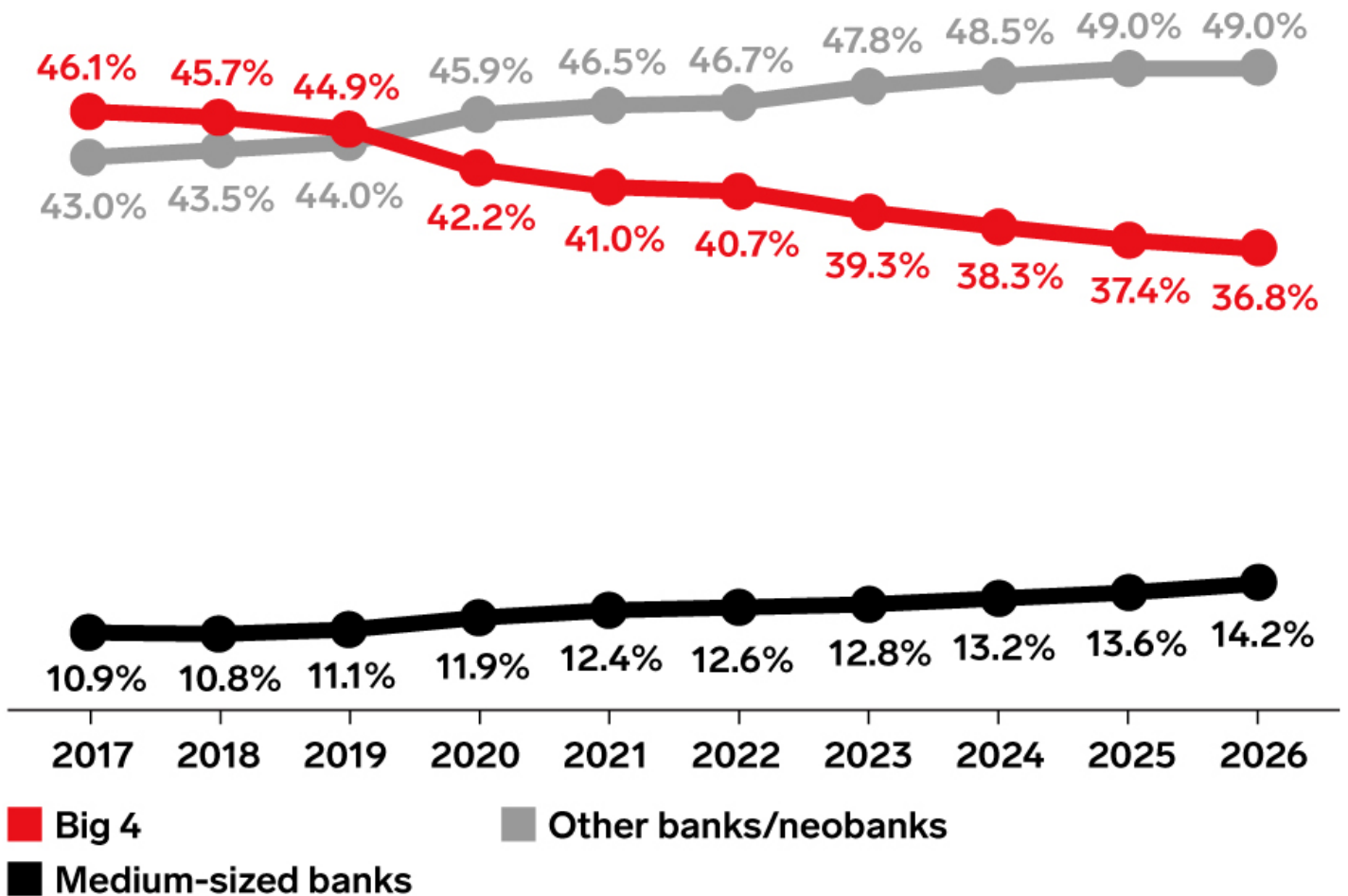
- Chase has enabled **20 million card and payment transactions**.
- The estimated total non-interest expense **per customer for digital challenger banks was two to three times less** than for traditional banks.
- But JPMorgan expected Chase to **lose \$450 million in 2022** and for this loss to continue at a similar level “for the next few years,” according to CEO Sanok Viswanathan.
- The challenger bank was projected to **break even in five to six years**, with “planned expansion to multiple products to offer full-service banking.”

Breaking it down: Chase's projected losses are a drop in the ocean when compared to its parent's huge earnings. And its performance is on par, considering it only launched in September and operates in an industry where less than 5% of neobanks break even.

However, the losses are significant, given the pressure the bank is under for its **30% hike in spending on new projects**, which is mainly tech expenditure. The bank's projections for Chase are likely an attempt to appease investors who called for more clarity regarding the rationale behind launching the digital bank.

US Banks' Share of Total Annual IT/Technology Expenses, by Bank Size, March 2022

% of total banking IT/technology expenses



Note: includes expenses by banks with FDIC-backed consumer and business expenses and savings accounts; expenses include core systems maintenance, modernization, innovation, transformative technology, data processing, equipment, software, digital initiatives, compliance, and cybersecurity; Big 4 banks include Chase, Bank of America, Wells Fargo, and Citibank; medium-sized banks include BB&T, Key Corp, PNC, Regions, Truist Bank, and U.S. Bancorp

Source: Insider Intelligence, March 2022

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The big takeaway: JPMorgan will persevere with Chase, buoyed by encouraging customer acquisition and backed by the vast resources of the US's biggest bank by assets.

- The bank has the resources to take a long-term approach to Chase's success and withstand losses that are likely to remain the same or even widen if planned product launches go ahead.
- JPMorgan may view the UK as a testing ground for other markets to see how its digital bank "speedboat" fares.
- But investors may not take the same view if it stays in the red by almost half a billion each year.

Chase's ability to disregard the short-term performance of its bottom line sets it apart from most other digital banks in the UK. Its long-term outlook will allow it to grow naturally and widen its product line. But it still has to balance this with keeping investor concerns at bay.